BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 1999-165-W – ORDER NO. 1999-850

DECEMBER 3, 1999

IN RE: Request of Wright's Plumbing and Utilities, Inc. for approval of Establishment of Service Area and Rates and Charges for Water Service in Crystal Pines Subdivision in Lexington County.	) ORDER ✓) ESTABLISHING) SERVICE AREA AND) RATES AND CHARGES

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Application of Wright's Plumbing and Utilities, Inc. (Wright's or the Company) for approval of the establishment of a water service area, and for rates and charges for water service in the Crystal Pines Subdivision, located in Lexington County, South Carolina. Wright's proposes the following rate schedule:

Basic Charge	\$ 8.00
Commodity Charge	\$ 3.24/ 1000 gallons
Tap Fee	\$ 300.00
Disconnection Fee	\$ 50.00
Reconnection Fee	\$ 75.00

Pursuant to the instructions of the Commission's Executive Director, the Company published a Notice of Filing, one time, in newspapers of general circulation in the Company's proposed service area, and served a copy of said Notice on all affected customers in the proposed service area. The Company furnished affidavits to show that it had complied with the instructions of the Executive Director. A Petition to Intervene in the matter was filed by the Residents of the Crystal Pines Subdivision (the Residents).

Accordingly, a hearing was held on August 19, 1999 at 2:30 PM in the offices of the Commission, with the Honorable Philip T. Bradley presiding. Wright L. Phillips appeared pro se on behalf of the Company. The Residents were represented by Demitri K. Koutrakos, Esquire. The Residents presented the testimony of John T. Porter and Michael T. Westmoreland. The Commission Staff was represented by F. David Butler, General Counsel. The Staff presented the testimony of Steve W. Gunter and Charles A. Creech.

Wright Phillips testified that the original construction of the Crystal Pines Water System began in approximately 1981, which consisted of one well and one 4,000 gallon tank. Wright's Plumbing & Utilities acquired the water system, service, repair, and billing in September, 1994. In 1996, an additional well and tank were installed. Distribution lines were installed and put into service in 1998 after final approval by the Department of Health and Environmental Control (DHEC). Phillips requests that we grant him the Crystal Pines Subdivision of Lexington County as his service area.

Phillips also testified as to the various fees and expenses paid by his Company for upkeep and maintenance of the system, including DHEC fees, bills for electricity, and bills for regular maintenance of the system. Phillips requests that we allow him to charge the rate schedule as outlined in the opening paragraph of this Order, stating that his various expenses and fees for the system justify the requested rates. Phillips noted that there are presently 20 customers on the system. The system will have a potential for a total of 70 taps.

John T. Porter and Michael T. Westmoreland, who are residents of the Crystal Pines Subdivision, testified as members of the intervenor group.

Porter testified that he had lived in the Subdivision since February of 1984, and that he had to purchase and install his own water meter. Porter noted that he was billed on a monthly basis for water, first at $10 per month, and later at $22.00 per month. Porter noted service problems that he has encountered with the water system, including low pressure. The witness also has had difficulty in contacting anyone with the Company at times of trouble with the system. Finally, Porter opined that the requested rates are excessive, and that all residents of Crystal Pines who have installed their own water meters should be reimbursed for the cost. (See prefiled testimony of Porter.)

Michael T. Westmoreland also testified as a resident of the subdivision. Westmoreland also stated that he had to purchase and install a water meter. Westmoreland also noted that the system sometimes suffered from low pressure, and that he had received several "boil water" advisories. The witness further testified that he had been told in the past by Wright Phillips' father Don that he could not use the water for normal household responsibilities. Westmoreland states that the proposed rate would be a 36% increase over the most recent rate charged, which is a flat rate of $22.00 per month. Finally, Westmoreland stated a belief that the tap fee, disconnection fee, and reconnection fee as proposed were all excessive. Westmoreland proposed a basic charge of $5.00 per month, and a commodity charge of $2.00 per thousand gallons per month would be appropriate. (See prefiled testimony of Westmoreland.)

Steve W. Gunter, an employee of the Commission's Auditing Department, also testified. With regard to determining known and measurable expenses and plant in service, Gunter reviewed paid invoices, and when possible, verified amounts through confirmations with vendors and annualized expenses. Staff eliminated items, such as tap fees and pass through charges. Gunter also eliminated equipment replacement expense from operating expenses. Depreciation expense was annualized. After making all Staff adjustments, Gunter calculated a Net Loss for Return of ($761) and an operating margin of (11.16%). (See prefiled testimony of Gunter.)

Charles Creech, Associate Engineer III, also testified. Creech noted that the Company had been in existence since 1981, and has been charging a flat monthly rate for water service, which is presently $22.00 a month. This rate has not been approved by this Commission. Creech also noted that the Commission Staff worked in the field on July 22, 1999 checking the system and interviewing some of its customers.

Creech recommended that the Company, as required by the Commission, put its telephone number on its bills and post it on fences at the well sites. Further, Staff affirmed the need for a tap fee to be charged in the future by the Company, which would include the installation of the water meter. Finally, Creech recommended that when chlorine has to be added to the system, that the Company closely monitor the process and blow off any lines if necessary.

Creech calculated that, using the present number of customers, i.e. 20, and using a historical consumption of 6,300 gallons and the requested rates, the rates would generate $6,818.40 per year. (See prefiled testimony of Creech.)

FINDINGS OF FACT

1. Wright's Plumbing and Utilities, Inc. is presently providing water to the Crystal Pines Subdivision, located in Lexington County, South Carolina, but has not had either its service area, or rates approved by this Commission. (See testimony of Phillips.)

2. Wright's Plumbing and Utilities, Inc. has now made Application for approval of both, and seeks approval of the Crystal Pines Subdivision as its service area, and rates as indicated supra. Phillips has filed evidence of various fees and expenses paid out by the water company. (See testimony of Phillips.)

3. The system presently has 20 customers, although the system has the potential for 70 customers. (See testimony of Phillips.)

4. The system has had problems with low pressure, and there have been "boil water" advisories, although Phillips attests that the pressure problems are due to extraneous sources, such as construction interference with lines. The residents of the Subdivision have had difficulty contacting utility personnel at various times. (See testimony of Porter, Westmoreland, and Phillips.)

5. Staff's adjustments are proper under the circumstances. Removal of tap fees, DHEC licensing fees and equipment replacement expense was proper, as was an allowance for depreciation expense. All adjustments are consistent with good accounting principles. Staff calculated service revenues and total operating revenues of $6,818. Total operating expenses are $7579, after adjustment. Net Loss for Return becomes ($761), with a calculated operating margin of (11.16%). (See testimony and exhibit of Gunter.)

CONCLUSIONS OF LAW

1. Wright's is a water utility providing service in the Crystal Pines Subdivision of Lexington County, South Carolina. The Company is hereby granted the Crystal Pines Subdivision as its service area.

2. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. Section 58-5-10 et seq (1976) as amended. The Company has not heretofore operated with the approval of this Commission, which we do not condone. However, we must herein establish a service area and rates for the Company, based on the public interest.

3. The Commission concludes that each of the Staff adjustments proposed by the Commission Staff are appropriate and are hereby adopted by the Commission. The Staff properly eliminated tap fee revenues from operating revenues as per Commission rules and regulations, and properly eliminated DHEC licensing fees, which are billed as separate charges to ratepayers. Elimination of the equipment replacement expense from operating expenses is reasonable, in that the Company based its adjustment on the cost to replace the present equipment assuming an inflation rate of 3% over the equipment's useful life. We adopt Staff's annualization of depreciation expense using the standard formula approved by this Commission. (See Hearing Exhibit 3, Exhibit A-1, SG 2.)

4. Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923) and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not insure through regulation that a utility will produce net

revenues. As the United States Supreme Court noted in Hope, a utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility... that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

5. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rate of a public utility. For a water utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the total operating income for return by the total operating revenues of the utility.

The Commission concludes that the use of the operating margin is appropriate in this case.

6. The Commission is mindful of the standard delineated in the Bluefield decision and of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue

requirement of the Company, but also the proposed price for the water treatment, the quality of the water service, and the effect of the proposed rates upon the consumers. See Seabrook Island Property Owners Association v. South Carolina Public Service Commission, 401 S.E. 2d 672 (1991); S.C. Code Ann. Section 58-5-290 (1976), as amended.

7. The fundamental criteria of a sound rate structure have been characterized as follows:

> ...(a) the revenue-requirement or financial need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.
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> Bonbright, Principles of Public Utility Rates (1961), p. 292.

8. Based on the considerations enunciated in Bluefield and Seabrook Island, and on the fundamental criteria of a sound rate structure as stated in Principles of Public Utility Rates, the Commission determines that the Company should have the opportunity to earn a (11.16%) operating margin on its water operations. In order to have a reasonable opportunity to earn a (11.16%) operating margin, the Company will need to produce $6,818 in total annual operating revenues.

TABLE A

OPERATING MARGIN

Operating Revenues	$ 6,818
Operating Expenses	7,579
Net Loss for Return	(761)
Operating Margin	(11.16%)

9. In order to earn the additional operating revenues necessary to earn an operating margin of (11.16%), the Company must earn revenues of $6,818. In order to earn these revenues, we hold that the rates of $8.00 per month basic facilities charge and $3.24 per 1,000 gallons of water per month commodity charge as requested by the Company are appropriate and are hereby adopted by this Commission. In addition, a tap fee of $300 is hereby approved for future taps. We do not believe that Wright's has justified the need for a $75.00 reconnect fee. Reconnection is not that difficult on a metered system, therefore, we believe that a reconnect fee of $30.00 is sufficient. We do not believe that the Company has justified the need for a disconnection fee, therefore we decline to allow the establishment of such a fee in this case at this time.

10. Whereas, we are sympathetic with the intervenors' service complaints, we do not believe that we can establish a lower basic facilities and commodity charge than that requested by the Company. The $8.00 basic facilities charge per month and $3.24 per 1,000 gallons per month as requested still create a negative operating margin. Were it not for the fact that the Company is agreeing to rates which create the negative operating margin, we do not believe that we could grant rates as low as requested, based on the principles elucidated above from Hope and Bluefield. The Commission is charged with

granting revenues "which are sufficient to assure confidence in the financial soundness of the utility." The granting of a negative operating margin does not normally meet this standard. Of course, in this case, the rate proposed by the Company results in the negative operating margin. However, because of Hope and Bluefield, we do not believe that we can lower the requested rate. The Commission remains concerned, though, about the various difficulties encountered by the residents in attempting to get in touch with utility personnel in time of trouble. Therefore, the Company is hereby directed to provide contact numbers on its bills, and a contact number must be posted on the fence at the well site. We are also sympathetic with the fact that various early residents of the Subdivision bought and installed their own meters. However, we are herein establishing a tap fee payable to the utility which will include this expense. Since the meter has to be paid for one way or another, we hereby respectfully decline to order repayment of the residents for the meters and their installations.

11. Accordingly, it is ordered that the rates attached in Appendix A are hereby approved for service rendered on or after the date of this Order.

12. It is ordered that if the approved schedule is not placed in effect within three (3) months after the date of this Order, the approved schedule shall not be charged without written permission of the Commission.

13. It is further ordered that the Company maintain its books and records for water operations in accordance with the NARUC Uniform System of Accounts for water utilities as adopted by this Commission.

14. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Philip T. Bradley
Chairman

ATTEST:

Gary E. Walsh
Executive Director

(SEAL)

APPENDIX A

WRIGHT'S PLUMBING & UTILITIES, INC.
109 MALLARD COURT
CHAPIN, S.C. 29036

HOME PHONE: 345-5997

MOBILE PHONE: 622-3320

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Date: December 3, 1999

Monthly Rates:

Basic Facilities Charge	$ 8.00
Commodity Charge	$ 3.24 /m
Reconnect Fee	$ 30.00
Tap Fee	$300.00